

Message Text

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ACTION SS-25

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EXDIS

FOR HARTMAN AND VEST FROM AMBASSADOR

E.O. 11652: XGDS-1

TAGS: MASS, IT, GW

SUBJECT: SALES OF ITALIAN M-113'S TO FRG

REFS: A) STATE 026031; B) MAAG BONN 071738Z FEB 75

SUMMARY: ON FEBRUARY 26 DEFENSE MINISTER FORLANI WROTE ASKING U.S. G. TO RECONSIDER APPROVING SALE OF 400 APC'S BY OTO-MELARA TO FRG. AMBASSADOR URGES MATTER BE RECONSIDERED WITHIN PRESENT PREVAILING PARAMETERS TO SEEK WAYS SATISFY ITALIAN NEEDS AND SERVE USG LONG TERM INTERESTS. END SUMMARY.

1. FOLLOWING IS TEXT OF LETTER RECEIVED FEBRUARY 26 FROM IMOD FORLANI:
BEGIN TEXT.

THE OTO-MELARA COMPANY, WHICH MAKES THE M-113 ARMORED VEHICLE FOR TROOP TRANSPORT IN ITALY UNDER A U.S. LICENSE, HAS LATELY HAD TO REFUSE ANY CONTRACTS WITH FOREIGN COUNTRIES FOR CONTINUING TO SUPPLY THESE VEHICLES BECAUSE OF FAILURE TO OBTAIN THE APPROVAL OF THE U.S. GOVERNMENT AUTHORITIES FOR THIS SUPPLY.

WHILE IT IS TRUE THAT THE U.S. GOVERNMENT'S PRIOR APPROVAL CONSTITUTES ONE OF THE CLAUSES UNDER WHICH THE LICENSE TO CONSTRUCT WAS CONCEDED, IT IS MY OPINION THAT AN IMPORTANT COMMERCIAL TRANSACTION OF THIS TYPE CANNOT BE FORBIDDEN UNLESS
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BASED ON IMPORTANT MILITARY OR POLITICAL REASONS.

HOWEVER, THERE WAS THE RECENT CASE OF A REFUSAL, IN AN ENTIRELY GENERAL WAY, OF THE POSSIBILITY OF CONTINUING NEGOTIATIONS TO SUPPLY FOUR HUNDRED VEHICLES TO THE GERMAN FEDERAL REPUBLIC, FOR A PRESUMED VALUE OF ABOUT 20 BILLION LIRE. THIS FAILURE TO GIVE APPROVAL WOULD SEEM UNJUSTIFIED, SINCE IT INVOLVES A COUNTRY WHICH IS PART OF THE ATLANTIC ALLIANCE.

I ALSO BELIEVE THAT IN MAKING THIS DECISION, DUE CONSIDERATION WAS NOT GIVEN TO THE FACT THAT, CONTRACTUALLY, IN ADDITION TO THE EXPECTED ROYALTIES, MORE THAN 50 PERCENT OF THE ENTIRE AMOUNT OF EVERY PRODUCTION ORDER MUST RETURN TO THE U.S. IN ANY CASE, UNDER THE FORM OF ORDERS FROM AMERICAN INDUSTRY BY THE ITALIAN LICENSEES.

THE CO-PRODUCTION UNDER LICENSE AGREEMENT, BESIDES BEING CREATED WITHIN AN ECONOMIC-COMMERCIAL PERSPECTIVE, WAS BASED ON A NEEDED OPPORTUNITY TO BUILD IN EUROPE AN ALTERNATE CENTER, AS FAR AS POSSIBLE SELF-SUFFICIENT, FOR THE CONSTRUCTION OF THE M113, EMPLOYMENT OF WHICH IS WIDESPREAD WITHIN THE ALLIANCE. THIS IMPORTANT PURPOSE CAN CONTINUE TO BE FULFILLED ONLY IF ITALIAN INDUSTRY IS SYSTEMATICALLY SUPPLIED WITH AN ADEQUATE QUANTITY OF ORDERS. THE BLOCK NOW IMPOSED BY THE U.S. AUTHORITIES TO ITALIAN INITIATIVE IN ACQUIRING THESE ORDERS, WOULD SEEM TO CONTRADICT THE SPIRIT AND THE SUBSTANCE OF THE AGREEMENT AND PREJUDICE THE CONTINUATION OF AN ACTIVITY WHICH, I BELIEVE, FROM EVERY POINT OF VIEW, TO BE OF GREAT INTEREST TO BOTH OUR COUNTRIES.

FINALLY, CONSIDERING THE DELICATE NATIONAL ECONOMIC SITUATION, THE WHOLE PROBLEM ASSUMES PARTICULAR IMPORTANCE FOR ITALY AT THIS TIME.

THEREFORE, I BEG YOU TO CONSIDER WHAT I HAVE SAID ABOVE AND TO INTERVENE, IF YOU SO DEEM, SO THAT THE PROBLEM CAN BE FAVORABLY RE-EXAMINED IN THE PROPER OFFICE, AS SOON AS POSSIBLE, TO THE BENEFIT OF ITALIAN INDUSTRY. END TEXT.

2. FORLANI IS KEY FIGURE IN GOI WHO AS THE FIRST OF THE "NEW GENERATION" OF LEADERS I WILL LIKELY CONTINUE PLAY IMPORTANT FUTURE ROLE. THE POSSIBLE SALE OF APCs TO GERMANY WAS A SUBSTANTIAL AMOUNT OF BUSINESS THAT LOOMED EVEN LARGER IN THE SHADOWS OF CURRENT ITALIAN ECONOMIC AND EMPLOYMENT DIFFICULTIES. THOUGH FRG ACCEPTANCE OF LETTER OF OFFER (REF B) PROBABLY FORECLOSES POSSIBILITY OF ANY FUNDAMENTAL RECONSIDERATION.
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IN CONNECTION WITH THE POSSIBILITY OF AN ITALIAN SALE, I WOULD URGE DEPARTMENT REVIEW POSSIBLE AVENUES BY WHICH THE ITALIANS MIGHT BE ABLE TO TAKE PART. PERMITTING THE PRODUCTION OF SOME VEHICLES OR ASSEMBLING SOME AT OTO-MELARA IS IN OUR VIEW A POSSIBILITY THAT WOULD PROBABLY SPEED DELIVERIES TO THE FRG, MEET THE REQUIREMENT TO AVOID DISRUPTION OF PRODUCTION IN THE U.S., AND SERVE TO DAMPEN RESENTMENT OF GOI. OTHER COMPROMISES MAY BE POSSIBLE. THE LICENSING AGREEMENT WITH OTO-MELARA HAS CLEARLY BENEFITED THE

U.S. BOTH IN MONETARY RETURNS AND IN TERMS OF PROVIDING AN IMPORTANT CHANNEL OF INFLUENCE UPON ITALIAN HARDWARE PROCUREMENT. (OTO-MELARA WILL SOON HAVE PRODUCED NEARLY 4000 VEHICLES UNDER ITS AGREEMENT, INVOLVING AN EXPENDITURE OF NEARLY \$50 MILLION IN THE U.S.) WE WOULD HOPE THAT IN THE ABSENCE OF ANY POSSIBLE OFFICIAL FLEXIBILITY IN THE CONDITIONS OF THE SALE TO GERMANY, THE LICENSOR MIGHT BE ABLE TO REACH AN AGREEMENT WITH OTO-MELARA THAT WOULD RESULT IN SOME SHARING OF PRODUCTION.

3. DEPARTMENT SHOULD BE AWARE THAT U.S. LICENSING AGREEMENTS IN ITALY ARE NO LONGER AS ATTRACTIVE TO THE ITALIANS AS THEY ONCE WERE BECAUSE OF THE GROWING NUMBER OF SALES RESTRICTIONS. OTO-MELARA IS DEVELOPING ITS OWN APC AND COULD ENTER INTO CO-PRODUCTION AGREEMENTS WITH NON-U.S. MANUFACTURERS, BECOMING STILL ANOTHER COMPETITOR WHERE IT IS NOW A PARTNER OF U.S. INDUSTRY.

4. I WOULD APPRECIATE THE DEPARTMENT'S GUIDANCE IN REPLYING TO MINISTER FORLANI. VOLPE

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